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SUBJECT: LESOTHO: GOL SCRUTINY OF PONZI SCHEME LEADS TO PROTESTS,
POLITICKING

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11. SUMMARY: On November 27, Lesotho's Central Bank suspended many commercial activities of the country's largest funeral services company, Lesotho MKM Burial Society, for functioning as an unlicensed bank, insurance company, and possibly as a pyramid investment scheme. As hundreds of anxious investors congregated for several days outside of the beleaguered company's headquarters and protested the GOL's action, Lesotho's political opposition took up the cause by calling and then canceling a general strike for December 4. PricewaterhouseCoopers (PwC) is currently conducting a forensic audit of MKM under Central Bank contract. The GOL's Minister of Finance gave assurances publicly that, although MKM is prohibited from receiving new cash deposits or paying out disbursements to investors pending results of the audit, the company is still allowed to render critical funeral services. The wide popularity of MKM's dubious investment activities, essentially a Ponzi scheme, and corresponding panic among many investors reflects the difficulty that Lesotho's lower and middle income populations face in accessing domestic credit. END SUMMARY.

Not Just a Funeral Plan

12. On November 27, the Central Bank of Lesotho requested that the High Court order the nation's largest funeral plan providers, Lesotho MKM Burial Society (MKM), to close many of its unregulated commercial activities. MKM was licensed by the Ministry of Trade solely as a funeral undertaker. In its petition, the Central Bank alleged that MKM operated as both an insurance company and as a bank in contradiction of the Financial Institutions Act of 1999. The petition alleged specific violations of the Act, including mandatory minimum capital requirements and a 25% liquidity minimum for deposits.

13. The closure petition followed an extended period of head-butting between MKM and the Central Bank during which the Central Bank demanded that MKM convert to a licensed insurance company. MKM's successful funeral operations expanded in 2004 when the parent company opened a deposit-taking public investment service offering lucrative returns of up to 100% annually under the name "Star Lion Gold Coin Investment Limited." While not specifically alleged in the Central Bank petition, MKM's incredible investment returns led to speculation of a Ponzi-style pyramid scheme. The High Court approved the Central Bank's petition, and MKM is currently undergoing a forensic audit by PricewaterhouseCoopers--expected to be complete within 90 days.

Political Implications

¶4. The closure of the MKM Funeral Society and Star Lion Gold Coin Investment Limited added a new dimension to Lesotho's already polarized political environment. Opposition parties moved quickly to criticize the Central Bank action, while Minister of Finance and Development Planning Timothy Thahane stated his strong support for the Central Bank action in Parliament. Thahane also gave assurances publicly that, although MKM is prohibited from receiving new cash deposits or paying out disbursements to investors pending results of the audit, the company is still allowed to render critical funeral services. The Central Bank stated that it will underwrite deposits in MKM's standard funeral plans, but has not made similar promises on other, unregulated investments placed in the company.

¶5. On November 28, hundreds of investors, depositors, and funeral plan subscribers congregated outside MKM's corporate headquarters demanding their money and condemning the GOL and Central Bank. The GOL posted heavily armed police to guard all premises belonging to MKM companies and to provide escort for PwC auditors. Thousands of Basotho subscribers, ranging from the nation's poor underclass to its affluent elite, remain anxious about the fate of their deposited funds and investments.

¶6. The weekly publication "Public Eye" quoted one disgruntled investor, referring to the GOL's practice of providing interest-free loans to senior officials, as stating, "The government is stepping on our toes. They lend themselves money but want to close our investments." Some investors remained for several days at MKM's offices, vowing to protect the corporate office and "keep an eye on" the PwC personnel conducting the forensic audit.

Strike Cancelled, But Discontent Remains

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¶7. COMMENT: The Central Bank of Lesotho's move to close MKM's investment activities, which PwC will likely expose as a pyramid operation, is by all accounts long overdue. Thousands of desperate investors, unable to access credit through the country's prohibitively expensive banking system, have been enticed by MKM's Ponzi scheme and the unrealistic promises of quick and lucrative returns. The need for such capital is not for personal enrichment, per se, but to meet basic needs, including relentless funeral expenses resulting from a staggering number of AIDS-related deaths, costly school fees, and housing construction materials. The opposition attempted to capitalize on the public panic, as well as an ongoing conflict between the Maseru City Council and unlicensed street vendors, by calling on November 29 for an indefinite general strike to begin on December 4 (Note: Opposition leaders backed off the strike threat on December 3, reportedly in response to students and business reluctant to disrupt exams and holiday commerce. End Note). While investors complain about the GOL's action against MKM and their now highly vulnerable savings, the truth is that only much earlier action might have protected their investments. END COMMENT.
NOLAN